

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 OMB-01 AID-20 CIAE-00 DODE-00 PM-07

H-03 INR-10 L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01

SP-03 SS-20 USIA-15 IO-14 COME-00 EB-11 FRB-02

TRSE-00 XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 STR-08

DRC-01 /180 W

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R 172020Z JUN 74

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 7283

INFO AMEMBASSY BOGOTA

AMEMBASSY CARACAS

AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY PANAMA

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

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GUATEMALA ALSO FOR ROCAP

E.O. 11652: N/A

TAGS: ECON, XK, CS

SUBJECT: COSTA RICA AND THE CACM: A POST-JALAPA ASSESSMENT

1. SUMMARY: THIS CABLE PROVIDES THE EMBASSY'S INITIAL ASSESSMENT OF THE CURRENT STATUS OF GOCR/CACM RELATIONS IN THE WAKE OF THE AJLAPA MEETING. IT IS BASED ON RECENT CONVERSATIONS WITH LEADING GOCR OFFICIALS HELD BEFORE AND DURING THE RECENT VISIT OF ROBERT ALLEN ROCAP. THESE CONVERSATIONS INDICATED THAT DESPITE THE FACT THAT THE NEW COSTA RICAN GOVERNMENT WAS EMBARRASSED AND PIQUED BY THE FAILURE OF JALAPA, IS HAS, NEVERTHE- LESS :DEVELOPED ITS TERRITORIES VIS A VIS THE CACM IN A REALISTIC

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MANNER BY CKA) RE-APPRAISING THE CURRENT STATE OF CACM INTEGRATION

AND MAKING A JUDGMENT AS TO FUTURE PROSPECTS (B) ASSESSING COSTA RICAN INTERESTS IN CACM INTEGRATION, (C) RE-EXAMINING THE COSTA RICAN ROLE IN PROMOTING INTEGRATION, AND (C) INTEGRATING THE GOCR VIEW OF CACM/COSTA RICAN RELATIONS INTO OVERALL PLANS FOR INCREASING AND STRENGTHING INTERNATIONAL TRADE. AS A RESULT OF THIS PROCESS IT APPEARS THAT THE GOCR HAS CONCLUDED THAT WHILE CACM INTEGRATION REMAINS AN IMPORTANT GOAL AND THAT IS COMMITMENT TO THE CACM IS IRREVERSIBLE, REAL INTEGRATION PROGRESS CAN BE ACHIEVED ONLY IN THE LONG RUN. IN THE MEANTIME, THE GOCR WILL UTILIZE THE CACM TO IMPROVE ITS TRADE, WHILE, AT THE SAME TIME, SEEKING TO COMPLEMENT THE CACM WITH NEW ECONOMIC AND POLITICAL INITIATIVES IN NON-TRADITIONAL AREAS. IN THE LIGHT OF THIS ASSESSMENT IT BEHOOVES THE U.S. TO TAKE A LONG RANGE VIEW TOWARD INTEGRATION, STRESS THE BASIC INFRASTRUCTURE WORK AND NOT BE DISCOURAGED BY SHORT TERM POLITICAL VICISSITUDES ON THE PART OF THE CENTRAL AMERICANS.

2. STATUS OF THE CACM. COSTA RICAN OFFICIALS APPEAR TO BELIEVE THAT THE CACM IS DEADLOCKED FOR THE TIME BEING. THIS ASSESSMENT IS BASED ON THE JUDGMENT THAT THE WILL TO REACH A SETTLEMENT TO THE SAVADORAN/HONUDRAN POLITICAL DISPUTE DOES NOT CURRENTLY EXIST--NEITHER ON THE PART OF SALVADOR NOR HONDURAS NOR ON THE PART OF NICARAGUA AND GUATEMALA. COSTA RICAN OFFICIALS COFCUR THAT THE ADVANCES ACHIEVED SO FAR IN DEVELOPING A FREE TRADE ZONE ARE SOLID. THE FUTURE IMPLEMENTATION OF PRACTICAL MEASURES DESIGNED TO PROMOTE EVEN GREATER TRADE AMONG CACM COUNTRIES IS FORESEEN.

3. COSTA RICAN INTERESTS IN THE CACM. GOCR OFFICIALS BELIEVE THAT THE INTER-REGIONAL TRADE PRODUCED BY THE CACM HAS BEEN BENEFICIAL TO COSTA RICA--DESPITE THE TRADE DEFICIT (WHICH IN ANY CASE HAS BEEN ON A DECLINING TREND SINCE 1972). THIS TRADE HAS PROMOTED INDUSTRIALIZATION, THUS DEVELOPING JOBS AND ENCOURAGING SOME SPECIALIZATION. GOCR OFFICIALS FORESEE A DECREASE IN THEIR DEFICIT WITH CACM--SOME PREDICH A LOAYRING OF THE DEFICIT TO \$8 MILLION IN 1974 AND AN UPSPURT IN TRADE--IT IS PREDICTED TYT TOTAL COSTA RICAN EXPORTS TO CACM IN 1974 WILL REACH \$110 MILLION. THE TREND DEMONSTRATED BY THE FOLLOWING TABLE ILLUSTRATES COSTA RICA'S GROWING TRADE INVOLVE-
MENT WITH THE MARKET.
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GROWTH OF COSTA RICA-CACM TRADE

1964 - 1973

(MILLIONS OF DOLLARS)

D

IMPORTS EXPORTS

YEAR	FROM CACM TO CACM	BALANCE
JOYR	\$ 8.2 \$ 15.4	7.2

1965	14.7	18.3	3.6
1966	23.2	25.1	1.9
1967	34.2	27.9	-6.4
1968	48.8	36.2	-12.6
1969	57.2	37.7	-13.5
1970	68.7	46.1	-22.6
1971	76.5	46.9	-29.6
1972	79.5	51.4	-28.0
1973	83.1	70.5	-12.6
1974&	118.0	110.0	-8.0

&ESTIMATE

SOURCE: COMERCIO EXTERIOR, DIRECCION GENERAL DE ESTADISTICA
Y CENSOS, BANCO CENTRAL

4. COSTA RICAN ROLE IN PROMOTING INTEGRATION. WHEN DANIEL ODUBER TOOK OFFICE ONE OF THE IMMEDIATE GOALS HE SET FOR HIS GOVERNMENT WAS TO HELP FIND A SOLUTION TO THE POLITICAL PROBLEMS BLOCKING FURTHER CACM INTEGRATION. HE EMPHASIZED THIS IN HIS INAUGURAL ADDRESS AND OBVIOUSLY PUT GREAT STORE IN PERSONAL DIPLOMACY AS TYPIFIED BY JALAPA. THE FAILURE OF OTHER CHIEFS-OF-STATE TO COOPERATE WITH THIS INITIATIVE BY ATTENDING THE JALUNA MEETING APPEARS TO HAVE COME AS SOMETHING OF A SHOCK TO HIM, AND THERE ARE INDICATIONS THAT HE MAY, AT LEAST AT FIRST, HAVE LOOKED UPON THIS FAILURE AS A "SLAP IN THE FACE" AND A SETBACK TO HIS PRESTIGE AT THE OUTSET OF HIS ADMINISTRATION. NEVERTHELSS, IS IS OUR ASSESSMENT THAT THE ODUBER GOVERNMENT REMAINS COMMITTED TO CACM INTEGRATION. ARAT HAS CHANGED IS ODUBER'S WILLINGNESS TO TAKE BOLD INITIATIVES AND PROVIDE LEADERSHIP TO THE INTEGRATION MOVEMENT. THE ATTITUDE NOW SEEMS TO BE ONE OF DEVOTING EFFORTS TOWARD IMPROVEMENTS IN REGIONAL TRADE AND POSTPONING THE QUESTION OF FURTHER INTEGRATION UNTIL SUCH TIME AS IT APPEARS THAT A GENUINE CONSENSUS TO REACH A LIMITED OFFICIAL USE

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POLITICAL SETTLEMENT HAS DEVELOPED. THIS DOES NOT MEAN THAT ODUBER HAS GIVEN UP ON THE IDEA OF A SUMMIT MEETING-- ONE GOCR OFFICIAL INDICATED THE POSSIBILITY OF HOLDING SUCH A MEETING IN SEPTEMBER--IT DOES INDICATE, HOWEVER, THAT COSTA RICA--FOR NOW AT LEAST--WILL NOT PICK UP THE BALL AND RUN WITH IT UNLESS IT KNOWS IN ADVANCE THAT THE OTHER CACM MEMBERS ARE IN A RECEPTIVE MOOD. SOME LIGHT MAY BE SHED ON OTHER CACM MEMBER POSITIONS AT THE NEXT HIGH LEVEL COMMITTEE MEETING TENTATIVELY SCHEDULED FOR JUNE 19 IN GUATEMALA. COSTA RICA HAS PROPOSED THAT CACM COUNTRIES UTILIZE THIS MEETING TO SET FORTH THEIR INDIVIDUAL ASSESSMENTS OF THE INTEGRATION MOVEMENT IN THE WAKE OF JALAPA.

5. THE INTERNATIONAL VUOFW. ODUBER HAS CONSISTENTLY PUSHED THE VIEW THAT COSTA RICA MUST EXPAND ITS INTERNATIONAL

(INCLUDING COMMERCIAL RELATIONS BEYOND TRADITIONAL AREAS, I.E. THE U.S. AND THE CACM. THUS THE "VIEW TO THE SOUTH" WHICH RECEIVED SOME PUBLICITY AFTER THE JALPA FAILURE CANNOT BE SAID TO HAVE BEEN CAUSED BY JALAPA. WHAT JALAPA PROBABLY DID WAS REINFORCE O'DUBER'S JUDGMENT THAT POLITICAL AND ECONOMIC DIVERSIFICATION WAS AN ESSENTIAL GOAL. SO, WHILE O'DUBER WILL REMAIN COMMITTED TO THE CACM (AND WOULD FIND IT DIFFICULT TO "PULL OUT" EVEN IF HE WANTED TO BECAUSE OF WELL-ESTABLISHED TRADE PATTERNS) HE WILL PROBABLY NOT MAKE CACM RELATIONS AN IMMEDIATE PRIORITY-- UNLESS SPECIAL EVENTS OCCUR WITH WARRANT SUCH ATTENTION. RATHER, HE WILL SPEND A HIGHER PROPORTION OF HIS GOVERNMENT'S TIME AND RESOURCES ON DEVELOPING RELATIONS WITH HIS IMMEDIATE NEIGHBORS AND WITH IDEOLOGICALLY CONGENIAL GOVERNMENTS IN VENEZUELA, COLOMBIA AND THE CARIBBEAN. SOME EFFORT MAY ALSO GO INTO PROMOTING FURTHER DRAWBACK ARRANGEMENTS WITH U.S. FIRMS IN THE GULF COAST.

6. COMMENT: WHAT DOES GOCR'S REASSESSMENT MEAN FOR U.S. INTERESTS? PROBABLY VERY LITTLE. U.S. TRADE AND INVESTMENT HAVE PROFITED FROM CACM INTEGRATION AND ALL INDICATIONS ARE THAT THE CONDITIONS WHICH HAVE PRODUCED THIS PROSPERITY WILL CONTINUE IN EFFECT. (MORE RELEVANT WILL BE O'DUBER'S SUCCESS IN KEEPING COSTA RICA'S INFLATION FROM OUT- RUNNING THAT OF ITS NEIGHBORS AND SUCH THINGS AS COSTA RICA'S EXCHANGE RATE POLICY.) IT IS ALSO POSSIBLE THAT REGIONAL COMMERCIAL TIES WILL BE STRENGTHENED EVEN FURTHER. THERE IS A LIMITED OFFICIAL USE

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POTENTIAL SORE POINT, HOWEVER, BEYOND THE SALVADOR/HONDURAS BORDER DISPUTE WHICH SHOULD BE WATCHED CLOSELY. THIS IS THE POSSIBLE INCREASE OF INTER-COUNTRY SQUABBLES AND MINOR RETALIATIONS OCCASIONED BY MINOR TRADE ISSUES. SUCH DISPUTES MAY VERY WELL BURGEON IN THE ABSENCE OF STRONG NATIONAL INTEGRATION POLICIES AND A LESSENING OF THE DIRECT INVOLVEMENT IN INTEGRATION EFFORTS ON THE PART OF CHIEF OF STATE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COMMON MARKETS, ECONOMIC INTEGRATION, ECONOMIC REPORTS, TRADE DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 17 JUN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: WorrelSW
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974SANJO02290
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740157-0989
From: SAN JOSE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740639/aaaabhek.tel
Line Count: 210
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: WorrelSW
Review Comment: n/a
Review Content Flags:
Review Date: 10 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <10 SEP 2002 by cunninfx>; APPROVED <19 FEB 2003 by WorrelSW>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: COSTA RICA AND THE CACM: A POST-JALAPA ASSESSMENT
TAGS: ECON, XK, CS, CACM
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005